

REPORT DIGEST

REGIONAL OFFICE OF
EDUCATION #51

SANGAMON COUNTY

FINANCIAL AUDIT
(In Accordance with the
Single Audit Act and OMB
Circular A-133)

For the Year Ended:
June 30, 2009

Summary of Findings:

Total this audit	5
Total last audit	2
Repeated from last audit	1

Release Date:
March 3, 2010



State of Illinois
Office of the Auditor General
WILLIAM G. HOLLAND
AUDITOR GENERAL

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SYNOPSIS

- The Regional Office of Education #51 did not have sufficient internal controls over the financial reporting process.
- The Regional Office of Education #51 paid an employee \$1,000 as an independent contractor which did not comply with Internal Revenue Service requirements.
- The Regional Office of Education #51 did not have sufficient internal controls over receipts and disbursements.
- The Regional Office of Education #51 did not properly record reimbursements and administrative fees between programs.
- The Regional Office of Education #51 did not properly classify \$70,049 of federal grant flow through revenue in their general ledger system as local revenue.

{Expenditures and Revenues are summarized on the reverse page.}

REGIONAL OFFICE OF EDUCATION #51
SANGAMON COUNTY

FINANCIAL AUDIT
(In Accordance with the Single Audit Act and OMB Circular A-133)
For The Year Ended June 30, 2009

	FY 2009	FY 2008
TOTAL REVENUES	\$4,085,826	\$2,560,163
Local Sources	\$1,310,294	\$407,664
% of Total Revenues	32.07%	15.92%
State Sources	\$1,425,246	\$1,530,384
% of Total Revenues	34.88%	59.78%
Federal Sources	\$1,350,286	\$622,115
% of Total Revenues	33.05%	24.30%
TOTAL EXPENDITURES	\$4,111,731	\$2,505,042
Salaries and Benefits	\$2,025,582	\$1,565,478
% of Total Expenditures	49.26%	62.49%
Purchased Services	\$1,243,992	\$811,777
% of Total Expenditures	30.25%	32.41%
All Other Expenditures	\$842,157	\$127,787
% of Total Expenditures	20.48%	5.10%
TOTAL NET ASSETS	\$1,296,386 ¹	\$1,317,186
INVESTMENT IN CAPITAL ASSETS	\$17,293	\$19,948
¹ Includes an immaterial \$5,105 restatement to the FY2009 beginning net asset balance Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Helen Tolan Currently: Honorable Helen Tolan

**FINDINGS, CONCLUSIONS AND
RECOMMENDATIONS**

**CONTROLS OVER FINANCIAL STATEMENT
PREPARATION**

The Regional Office of Education #51 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #51 is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). Regional Office internal controls over GAAP financial reporting should include adequately trained personnel with the knowledge and expertise to prepare and/or thoroughly review GAAP based financial statements to ensure that they are free of material misstatements and include all disclosures as required by the Governmental Accounting Standards Board (GASB).

The Regional Office of Education #51 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains their accounting records on the cash basis of accounting. While the Regional Office maintains controls over the processing of most accounting transactions, there are not sufficient controls over the preparation of the GAAP based financial statements for management or employees in the normal course of performing their assigned functions to prevent or detect financial statement misstatements and disclosure omissions in a timely manner. For example, auditors, in their review of the Regional Office's accounting records, noted the following:

- The Regional Office's financial information required numerous adjusting entries to present the financial statements in accordance with generally accepted accounting principles.
- The Regional Office did not have adequate controls over the maintenance of complete records of accounts receivable, accounts payable, or deferred revenues. While the Regional Office did maintain records to indicate the balances of accounts payable, accounts receivable, and deferred revenues, no entries were provided to reconcile the Regional Office's grant activity, such as posting grant receivables and deferred revenues.

According to ROE officials, they did not have adequate funding to hire and/or train their accounting personnel in order to comply with these requirements. (Finding 09-01, pages 12a-12b) **This finding was first reported in 2007.**

The auditors recommended that, as part of its internal control over the preparation of its financial statements, including disclosures, the Regional Office of Education #51 should implement a comprehensive preparation and/or review procedure to ensure that the financial statements, including disclosures, are complete and accurate. Such procedures should be performed by a properly trained individual(s) possessing a thorough understanding of applicable generally accepted accounting principles, GASB pronouncements, and knowledge of the Regional Office of Education's activities and operations.

The Regional Office of Education #51 responded that it understands the nature of this finding and realizes that this circumstance is not unusual in an organization of this size. The Regional Office of Education staff has a reasonable understanding of the financial statements and can determine that the information in the financial statements is accurate, however, they lack the ability to prepare the notes to the financial statements. The recommendation that "such procedures should be performed by a properly trained individual(s) possessing a thorough understanding of applicable generally accepted accounting principles, GASB pronouncements, and knowledge of the Regional Office of Education's activities and operations," has been noted by the Regional Office. The ROE noted that they will continue to work with the other Regional Offices of Education to determine the most effective method of ensuring that its employees possess the knowledge required to compile the necessary GAAP based financial statements. (For previous Regional Office response, see Digest Footnote #1.)

PAYROLL REPORTING

The Regional Office of Education #51 paid an employee \$1,000 as an independent contractor which did not comply with Internal Revenue Service requirements.

The Regional Office of Education #51 paid an employee \$1,000 as an independent contractor which did not comply with Internal Revenue Service requirements.

Internal Revenue Service Publication 15-A requires existing employees of an entity who are compensated for their duties beyond the duties of their original agreement to be paid as wages subject to all payroll taxes and withholdings.

During our testing we noted one instance where an employee who met the criteria of an employee as set forth by the Internal Revenue Service, was paid \$1,000 as an independent contractor. The Regional Office was unaware of the proper reporting requirements for additional compensation to existing employees. (Finding 09-02, page 12c)

Auditors recommended that the Regional Office of Education #51 should develop policies and procedures to ensure that all additional compensation paid to existing employees is reported as wages subject to all applicable payroll taxes and withholdings. In addition, the Regional Office should contact the Internal Revenue Service and the Illinois Municipal Retirement System to determine if the Regional Office is required to file amended reporting for the applicable period.

The Regional Office of Education #51 responded that it will develop policies and procedures to ensure that all additional compensation paid to existing employees is reported as wages subject to all applicable payroll taxes and withholdings.

INADEQUATE INTERNAL CONTROL PROCEDURES

The Regional Office of Education #51 did not have sufficient internal controls over receipts and disbursements.

The Regional Office of Education #51 did not have sufficient internal controls over receipts and disbursements. The Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system over receipts and disbursements to prevent errors and fraud.

During the audit, auditors noted the following weaknesses in the Regional Office's internal control system:

- A. The individual who reconciles the Regional Office's cash receipts was not independent of the receipts process.
- B. There was no documented review of the Regional Office's quarterly and annual payroll reports or the automated withdrawals related to payroll withholdings from the Regional Office's checking account.
- C. One credit card expenditure only had two of the three charges supported by original receipts.
- D. There is no documented review of the Regional Office's general journal entries prior to being posted to the accounting system.
- E. One expenditure was not supported with proper documentation.

Lack of effective internal control procedures could result in unintentional or intentional errors or misappropriation of assets, in which errors or fraud could be material to the financial statements and may not be detected in a timely manner by employees in the normal course of performing their assigned duties. (Finding 09-03, pages 12d-12f)

Auditors recommended that:

- A. An individual independent of the cash receipts process should reconcile the cash receipts to the receipt book and deposit slip.
- B. An individual independent of the payroll process should review the Regional Office's payroll tax reports to ensure the amounts agree with the Regional Office's payroll system prior to submission. That independent individual should verify that the automatic withdrawals for payroll tax withholdings from the Regional Office's checking account agree with the payroll reports. In addition, these reviews should be documented.
- C. All credit card charges should be supported by an original receipt that has been approved by the Regional Superintendent.

- D. All journal entries should be reviewed prior to being posted to the accounting system by an individual independent of the general ledger. This journal entry review should be documented.
- E. Prior to disbursing funds, all disbursements should have documentation that supports the amount of the expenditure.

The Regional Office of Education #51 responded that it will implement internal control procedures requiring receipts for all expenditure requests, submit all payroll withholding reports to the Regional Superintendent for review and authorization, and will ensure that all disbursements have documentation that supports the amount of the expenditure prior to disbursing the funds. The ROE noted that further controls for cash receipts will be implemented to accommodate the separation of duties required for reconciling cash receipts to the receipt book and deposit slips.

RECORDING OF REIMBURSEMENTS AND ADMINISTRATIVE FEES BETWEEN PROGRAMS

The Regional Office of Education #51 did not properly record reimbursements and administrative fees between programs. Generally Accepted Accounting Principles require revenues and expenditures only be recognized once in an entity's financial statements.

The Regional Office of Education #51 did not properly record reimbursements and administrative fees between programs.

The Regional Office records internal reimbursements as local revenue instead of crediting a "due from" other fund and then reversing the transaction when the reimbursement is made. The Regional Office receives an administrative fee to cover the administrative cost of being the fiscal administrator for several State and federal grants. The Regional Office accounts for their administrative costs in its Administrative Discretionary Fund, therefore, they move this fee to the Administrative Discretionary Fund. When the fee is moved to the Administrative Discretionary Fund, it is recorded as local revenue instead of a transfer in and an expense in the grant instead of a transfer out.

The Regional Office recognized approximately \$1.35 million in federal revenue in FY2009, of which \$62,800 was reported as federal revenue and again as local revenue. The Regional Office was not aware of the proper reporting of internal reimbursements and administrative grant fees. (Finding 09-04, pages 12g-12h)

Auditors recommended that the Regional Office of Education #51 should report expenditures paid on-behalf of other funds as a due from and due to other funds in the effected funds and clear these accounts when the reimbursement is recorded. Auditors also recommended that the administrative fee for functioning as the fiscal administrator for a grant should be transferred to the Administrative Discretionary Fund through transfer in and out accounts to avoid reflecting the revenues and expenditures twice in the accounting records.

The Regional Office of Education #51 responded that it will report expenditures paid on-behalf of other funds as a due from and due to other funds and clear the accounts when the reimbursement is recorded. Administrative fees will be transferred to the Administrative Discretionary Fund through transfer in and out accounts to avoid reflecting the revenues and expenditures twice in the accounting records.

REVENUE CLASSIFICATIONS

The Regional Office of Education #51 did not properly classify \$70,049 of federal grant flow through revenue in their general ledger system as local revenue. The Regional Office is required by the Illinois State Board of Education (ISBE) to maintain its accounting system consistent with the ISBE Regional Office of Education Accounting Manual. That manual requires the Regional Office of Education #51 to track funding sources as federal, State, or local.

The Regional Office of Education #51 did not properly classify \$70,049 of federal grant flow through revenue in their general ledger system as local revenue.

The Regional Office received approximately \$1.35 million in federal funding, of which \$70,049 was misclassified as local revenue. Auditors identified questioned costs related to the following programs:

- \$52,337 - Area III – Homeless Liaison Project
- \$ 7,582 - System of Support (Title I School Improvement and Accountability)
- \$10,130 - Standards Aligned Classroom

The Regional Office was not aware that this flow through revenue should be classified as federal revenue.

Auditors recommended that the Regional Office of Education #51 should identify and record revenues as local, State, or federal revenue in accordance with requirements identified by the ISBE Regional Office of Education Accounting Manual.

The Regional Office of Education #51 responded that it will require all flow through funding entities to identify the original source of revenues as local, State or federal revenue in accordance with requirements identified by the ISBE Regional Office of Education Accounting Manual and will classify all revenues according to source.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #51's financial statements as of June 30, 2009 are fairly presented in all material respects.

WILLIAM G. HOLLAND, Auditor General

WGH:JB

SPECIAL ASSISTANT AUDITORS

Our special assistant auditors were Kemper CPA Group LLP.

DIGEST FOOTNOTES

#1: Controls Over Financial Statement Preparation —Previous Regional Office Response

In its prior response in 2008, the Regional Office of Education #51 responded that it maintains accounting records on the cash basis of accounting. The Regional Office of Education noted that while it maintains controls over the processing of most accounting transactions, there will be more stringent controls over the preparation of the GAAP based financial statements. Specifically, the Regional Office will furnish comprehensive accounts receivable and accounts payable listings, including all grant receivables and deferred revenues.